

Valuation Report

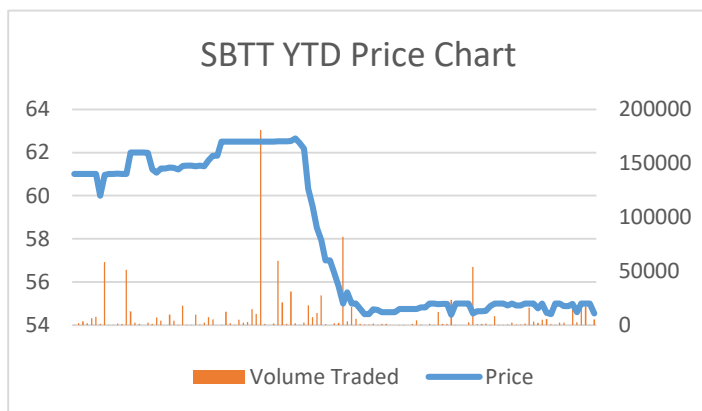


July 2020
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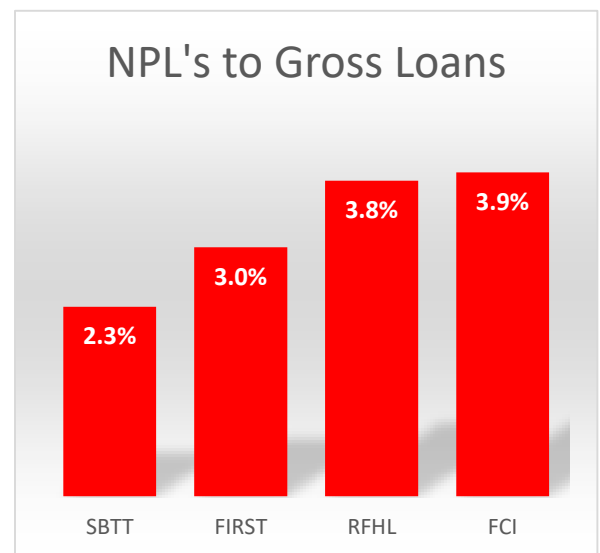
Scotiabank Trinidad & Tobago Limited (SBTT)

PLEASE SEE IMPORTANT DISCLOSURES

Scotiabank Trinidad and Tobago Limited (SBTT) is incorporated in the Republic of Trinidad and Tobago and offers a complete range of banking and financial services as permitted under the Financial Institutions Act, 2008. SBTT's ultimate parent company is The Bank of Nova Scotia, which is incorporated and domiciled in Canada.



Company Facts	
Symbol:	SBTT
Target Price:	TT\$54.42
Sector:	Banking
Market Cap.:	\$9,617,788,125.00
Issued Capital:	176,343,750
Financial Year End:	31-Oct



Key Ratios			
	ROE	ROA	Eff. Ratio
SBTT	16.3%	2.7%	41%
RFHL	16.0%	2.2%	50.5%
FIRST	10.9%	1.8%	54.8%
FCI	7.5%	0.9%	66.5%
NCBFG	22.7%	3.3%	51.4%

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Company Overview & History

Scotiabank first opened a branch in Port-of-Spain, Trinidad in 1906. However, after an epidemic of yellow fever that year which took the life of the manager, the branch closed to prevent the contagious disease from spreading to other staff. In 1954 Scotiabank returned to Port-of-Spain and further expanded in Trinidad with seven new branches in the late 1960s, bringing the total to 13.

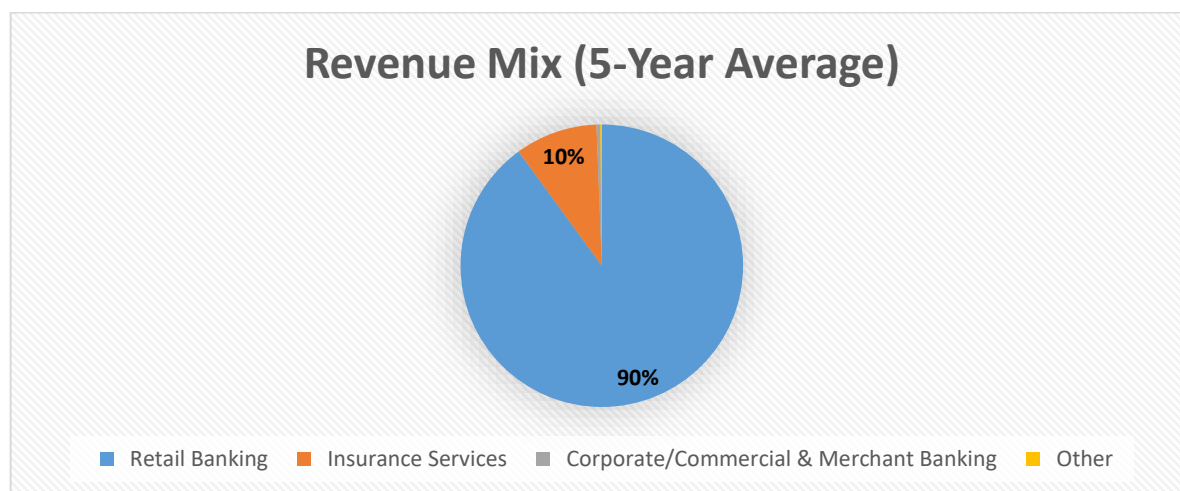
In 1973, The Bank of Nova Scotia Trinidad and Tobago Limited issued 17,000,000 shares to local shareholders, who eventually acquired about 23 per cent of the capital funds. Again in 1979, additional shares were sold, bringing local holdings to slightly more than 50 per cent. In 1998, the bank's name was changed to Scotiabank Trinidad and Tobago Limited.

Today, Scotiabank Trinidad and Tobago Limited (SBTT) has approx. 1,599 employees, over 96 automated teller machines (ATMs), 23 branches and 3 sales Centres, offering a broad range of retail, commercial and cash management services.

The Group's ultimate parent company is The Bank of Nova Scotia, which is incorporated and domiciled in Canada.

Business Model

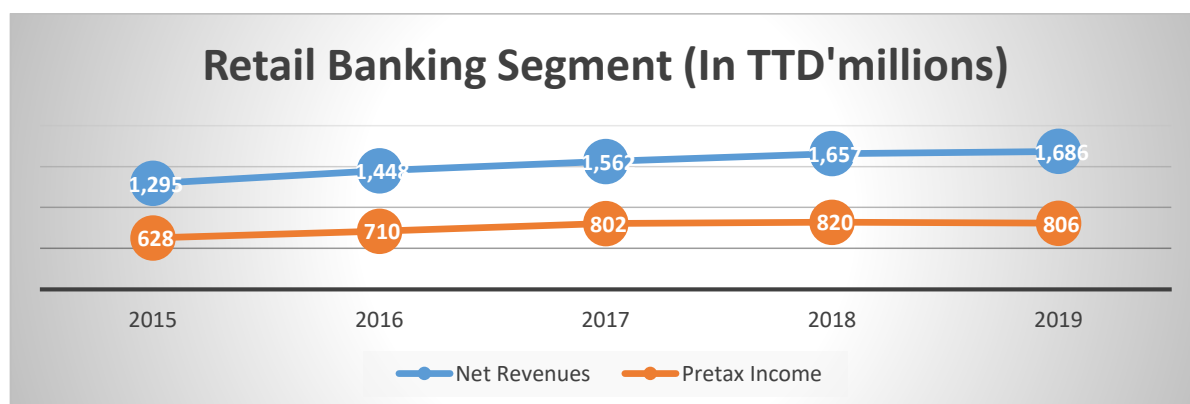
SBTT offers a comprehensive line of Retail, Small Business, Corporate, Commercial and Wealth services through its extensive network of branches across Trinidad & Tobago. Its subsidiaries include ScotiaLife Trinidad and Tobago Limited and Scotia Investments Trinidad and Tobago Limited.



SBTT’s Retail Banking segment contributes approximately (~) 90% to the groups revenue while the Insurance Services segment contributes ~ 10% of the groups revenue. On average over the last 5 years the other segments have contributed less than 1% of revenue.

Retail banking

SBTT’s retail banking segment provides loans and mortgages, deposits, foreign exchange transactions, credit & debit cards and Investments (mutual funds).

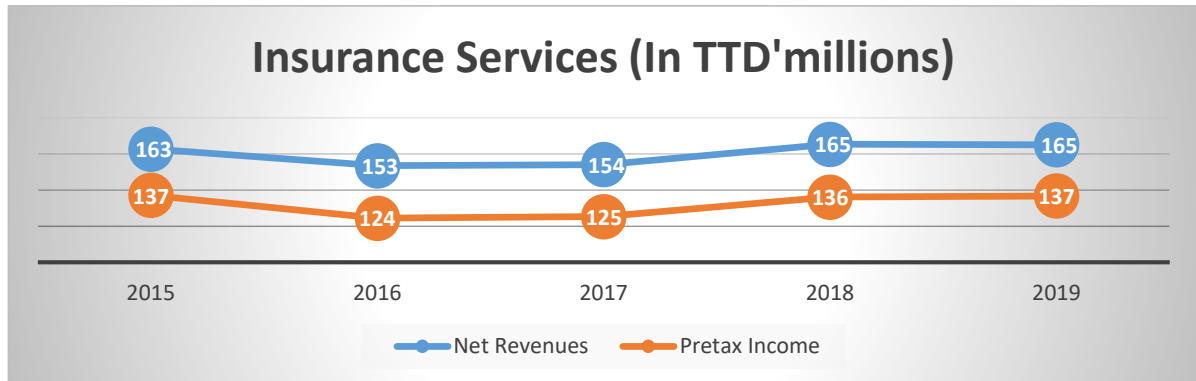


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Since 2015, Net Revenue for this segment grew at a CAGR of 8%. Pretax profit margin remained relatively flat over the period averaging around 49% over the 5-year period.

Insurance

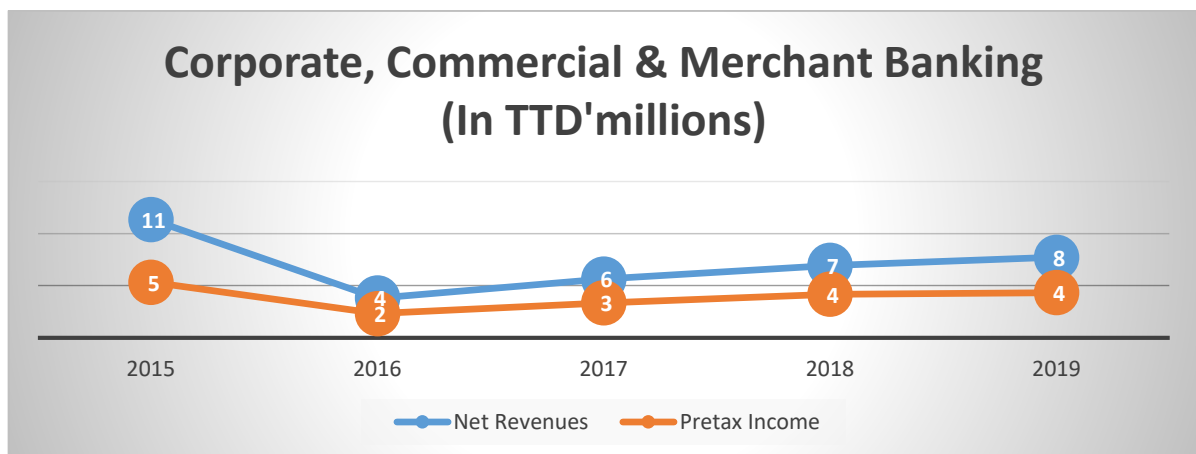
ScotiaLife Trinidad and Tobago Limited (ScotiaLife) is registered to conduct ordinary long-term insurance business under the Insurance Act, 1980. They offer insurance products and credit protection on loans, mortgages, credit cards and ScotiaLines.



Since 2015, Net Revenue for this segment has been relatively flat. Pretax profit margin averaged 82% over that period.

Corporate, Commercial & Merchant Banking

This segment provides a range of business and investment accounts, financing products (Investment Banking, Structure Finance, Working Capital etc.), cash management services, international trade products and industry expertise.

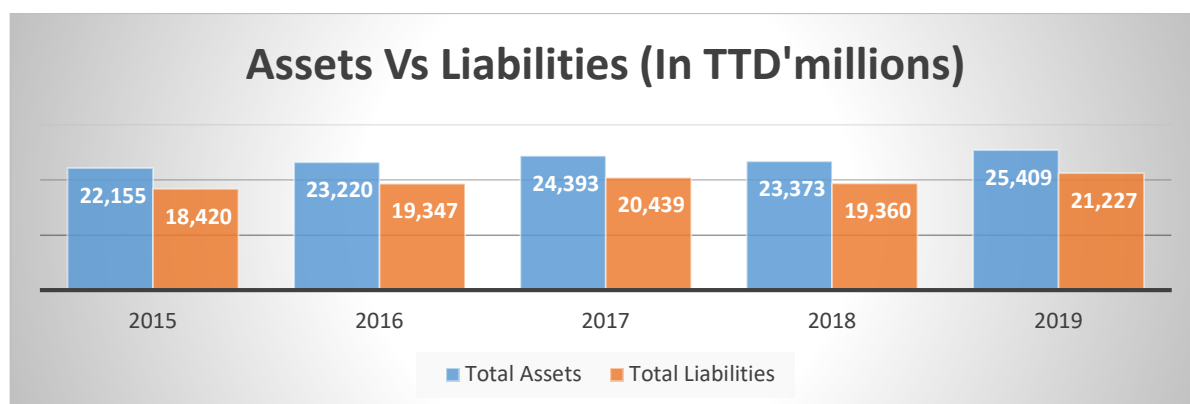


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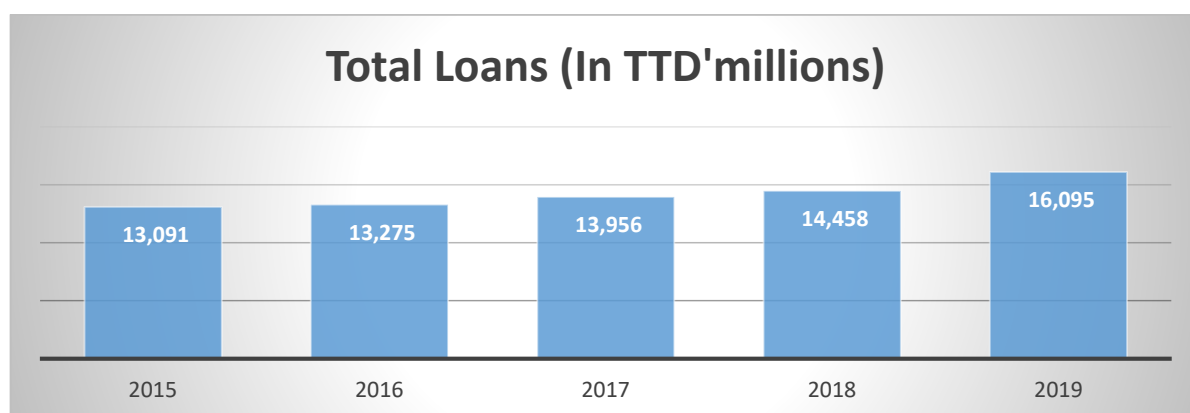
After declining by 66% in 2016, Net Revenue for this segment has been increasing steadily over the last 3 years. Pretax profit margin for this segment has averaged 57% over the 5-year period.

Financial Analysis

Since 2015, SBTT's Total Assets has grown by approximately TT\$ 2.8 billion at a CAGR of 3.8%. The main driver of the increase in Total Assets has been the increase in SBTT's loan portfolio.

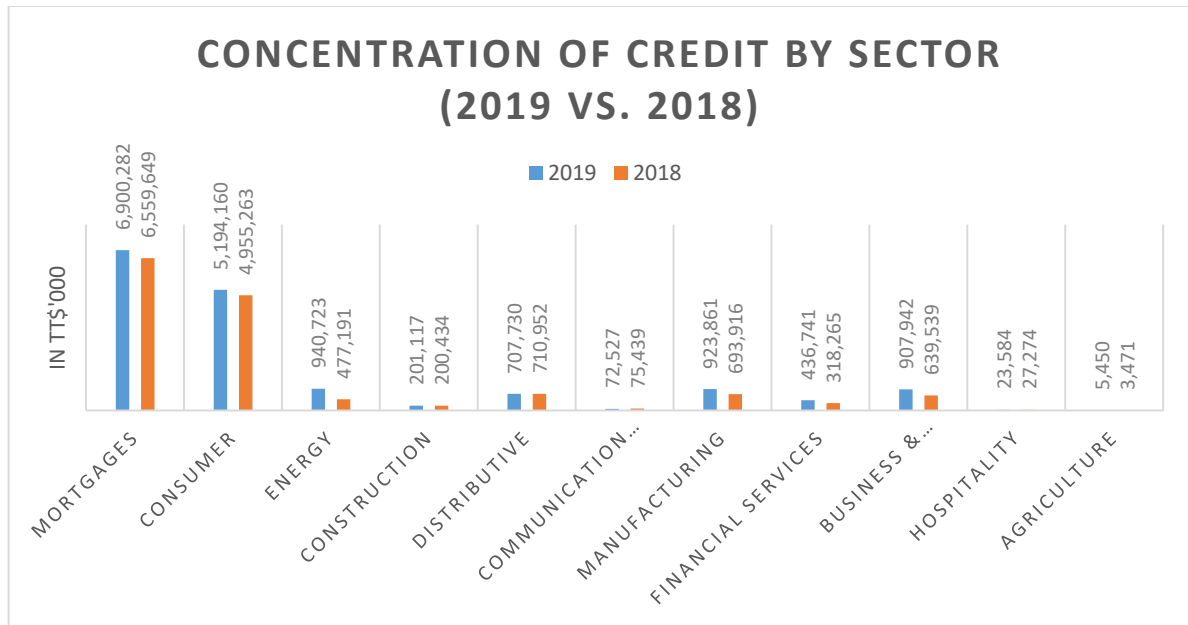


Total Loans which is SBTT's main revenue driver (Accounting for 60% of the Group's Total Assets on average over the last 5 years) increased at a CAGR of 2.1%. For FY 2019, Total loans increased by 11.3% to TT\$ 16.1 billion, the highest it has ever been.

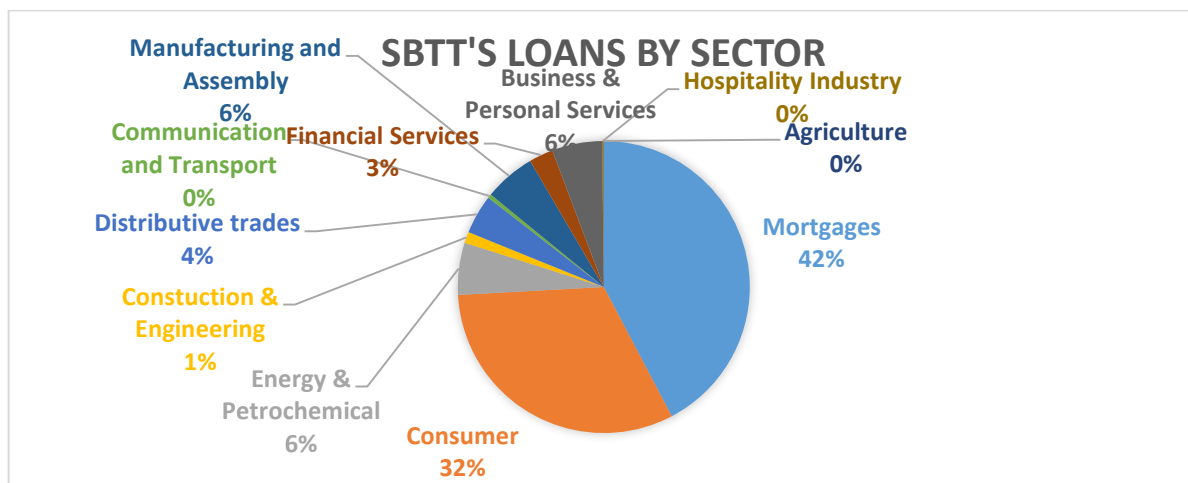


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Loans increased within most major sectors led by Energy & Petrochemical (TT\$ 463.5 million), Mortgage loans (TT\$ 340.6 million), Business & Personal services (TT\$ 268.4 million), Consumer loans (TT\$ 238.9 million) and Manufacturing (TT\$ 230.0 million). The only major sector which declined was the Distributive Trade sector (TT\$ -3.2 million). Energy & Petrochemical sector loans which was the largest contributor to the increase in total loans was boosted by the Trinidad Petroleum Holdings Limited (TPHL) and the Methanol Holdings Limited (MHL) transactions for which SBTT was the joint lead arranger for both transactions.

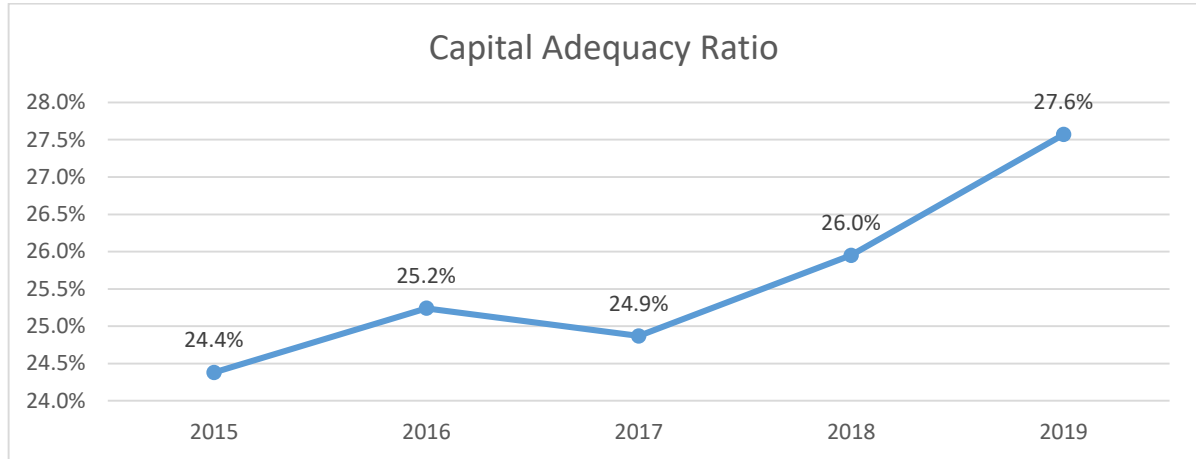


SBTT credit portfolio is heavily concentrated in mortgage and consumer loans. While this can be seen as confidence in SBTT by the general public, it could also be a possible weakness as it leaves SBTT slightly vulnerable, especially given the COVID-19 pandemic.

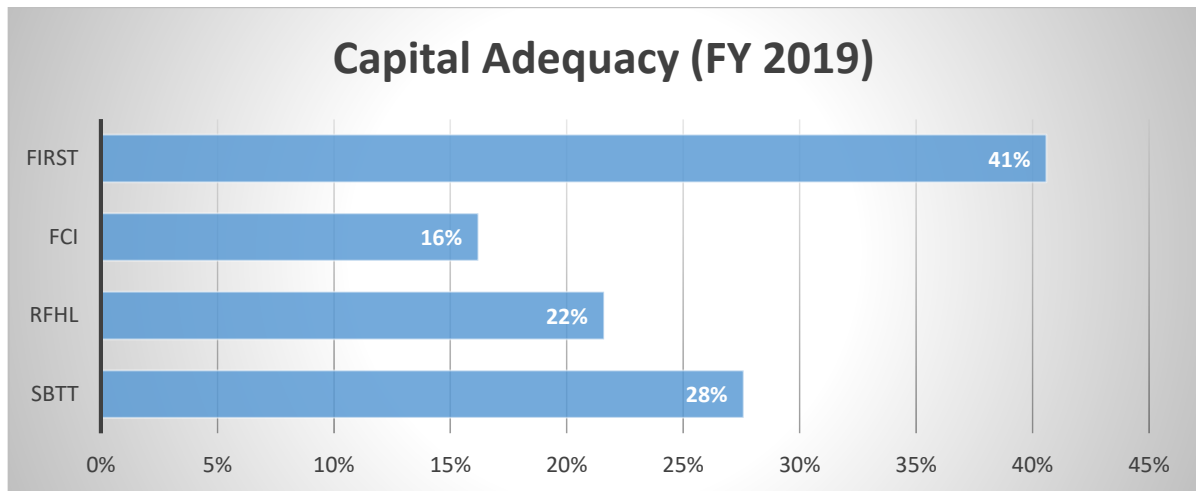


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Since 2017, SBTT’s capital adequacy ratio has trended upward. At the end of FY 2019, the ratio stood at 27.6% which is well above the Basel standard of 4% for Tier 1 capital and 8% for Tier 1 & Tier 2 capital ratio.

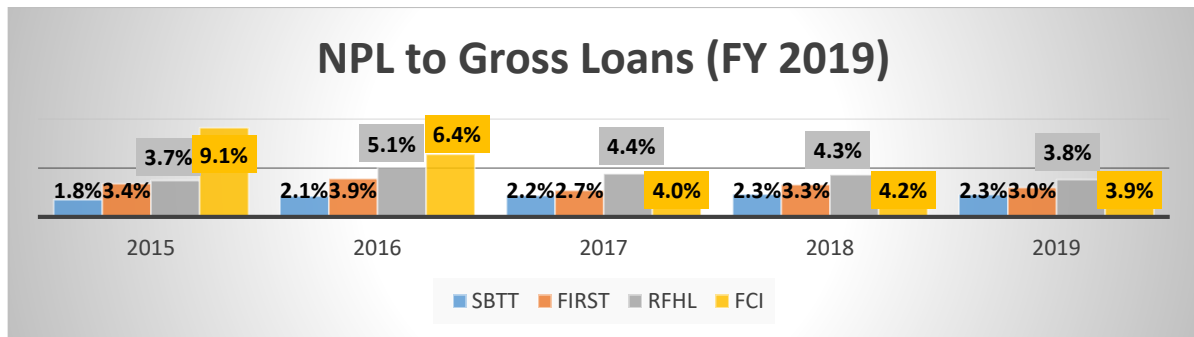


Compared to the other locally domiciled banks traded on the TTSE, SBTT has the second highest capital adequacy ratio.



SBTT’s NPL to Gross Loan ratio has been the lowest of the locally domiciled banks traded on the TTSE. Over the 5-year period SBTT’s ratio has averaged 2.1%.

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SBTT currently has the healthiest efficiency ratio in the industry at 41%. They also have the highest ROE among the locally domiciled banks traded on the TTSE.

Key Ratios	2015	2016	2017	2018	2019
ROE	15.6%	16.4%	16.7%	16.0%	16.3%
ROA	2.6%	2.8%	2.8%	2.7%	2.7%
Financial Leverage (Assets/Equity)	5.93	5.99	6.11	5.82	6.08
Asset Turnover	0.07	0.07	0.07	0.08	0.08
Operating Margin	53%	52%	54%	52%	51%
Net Income Margin	38%	39%	38%	35%	36%
Efficiency Ratio	45%	43%	40%	40%	41%

Recent Financial Performance

SBTT	Six Month Ended Apr 2020	Six Month Ended Apr 2019	Change	Change %
	In TT\$'000's	In TT\$'000's	In TT\$'000's	
Net Interest Income	663,620	658,078	5,542	0.8%
Other Income	251,290	261,461	(10,171)	-3.9%
Total Revenue	914,910	919,539	(4,629)	-0.5%
Total Expenses	522,109	452,629	69,480	15.4%
Tax Expense	130,729	124,021	6,708	5.4%
Profit After Tax	262,072	342,889	(80,817)	-23.6%
Earnings Per Share (EPS)	1.49	1.94	(0.46)	-23.6%

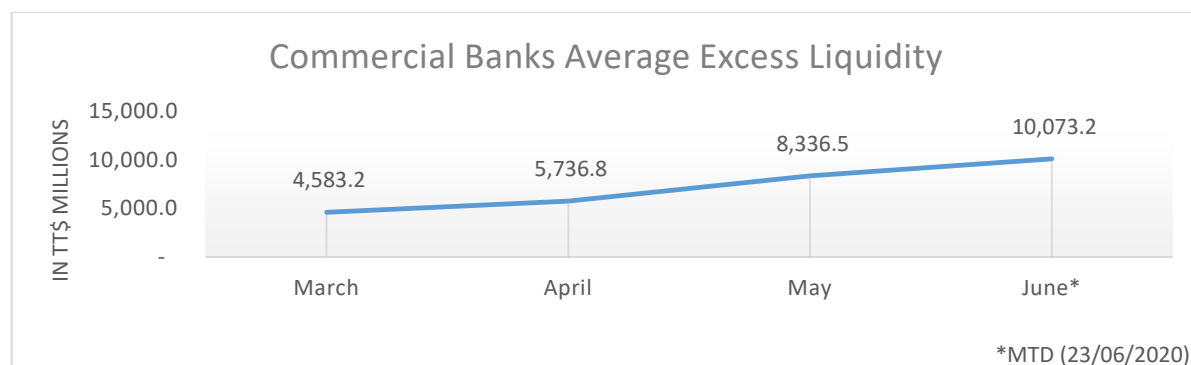
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SBTT realized profit attributable to shareholders of TT\$ 262 million for the first six month of the financial year (6M-2020), a decrease of ~ TT\$ 81 million or 24% over the comparative period in 2019 (6M-2019). Total Revenue for 6M-2020 was relatively flat when compared to 6M-2019, declining by 0.5% for 6M-2020. Net Interest Income increased by ~ TT\$ 6 million or 0.8%, while Other Income declined by ~ TT\$10 million or 3.9%. Non-Interest expenses increased by ~ TT\$ 25 million versus 6M-2019. Due to the impact of COVID-19 prevention measures on the economy, Net impairment loss on financial assets increase by ~ TT\$44 million or 59% versus 6M-2019. Percentage wise, this is the smallest increase in impairment for all the locally domiciled banks.

Recent Developments

COVID-19 Impact on SBTT

In response to the COVID-19 pandemic, the Monetary Policy Committee (MPC) of the Central Bank of Trinidad and Tobago (CBTT) reduced the reserve requirements for commercial banks from 17% to 14%. The MPC also took the decision to cut the repo rate from 5.0% to 3.5%, a 150 bps cut. This is the 2nd largest cut (30% in proportional terms) since the 08/09 financial crisis when the rate was cut by 40%. These measures injected additional liquidity into the commercial banking sector.



Since the implementation of these measures, Commercial Banks Average Excess Liquidity has increased by ~ TT\$ 5.5 billion. This indicates that commercial banks such as SBTT have access to significantly more funds to lend to customers. Given that the liquidity in the system keeps increasing, this maybe a sign that customers haven't been taking advantage of the reduced rates available to them.

Prime Lending Rate (%)						
Date	RBTT	RFHL	Citibank	FIRST	FCI	SBTT
Feb-20	9.25	9.75	9	9.5	8.85	9.25
Jun-20	7.5	7.5	7.5	7.5	7.8	7.25

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In response to the measures taken by the MPC, all commercial banks cut their prime lending rates. SBTT cut theirs' by 200 bps which was greater than the 150 bps cut to the repo rate by the MPC. As a result of the lockdown measures implemented by the government to fight the spread of COVID-19, SBTT made some concessions to its customers which will affect its cash flow, these concessions include: SBTT provided loan payment deferrals to over 64,000 retail and business customers; Waiver on certain fees; and reduction in interest rates in certain segments.

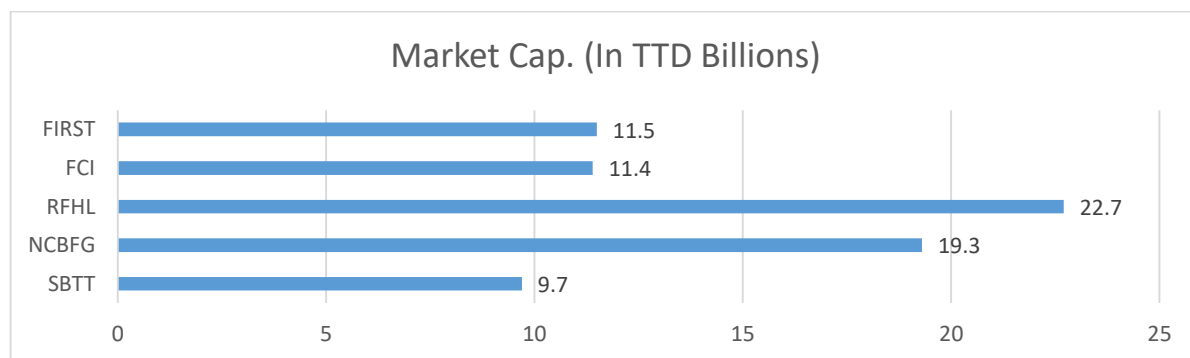
Given the good quality of SBTT's loan book (lowest NPL ratio in the sector), SBTT maybe in a better position than others to weather the impact of COVID-19.

Scotiabank, Sagicor cancel distribution deal

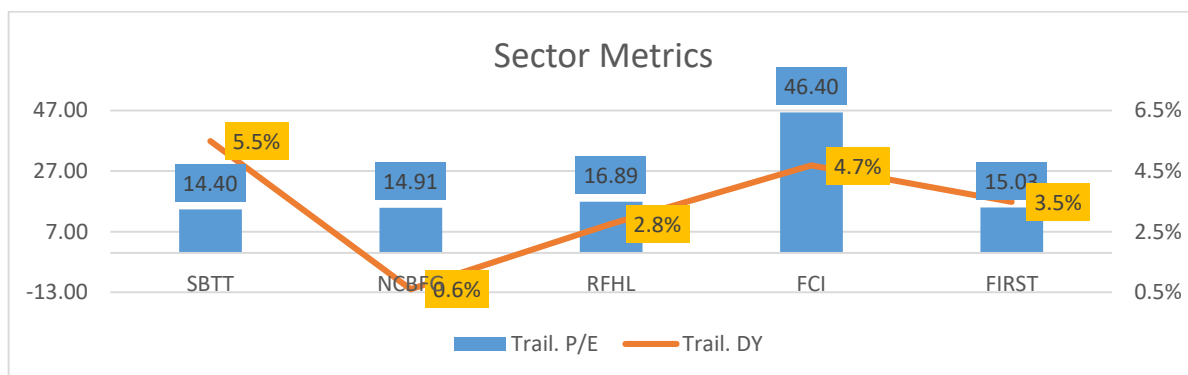
On November 27th, 2018, SBTT announced plans to sell its insurance subsidiary, ScotiaLife Trinidad and Tobago Limited to Sagicor for US\$ 96 million. The transaction was expected to be completed after the completion of the Sagicor-Alignvest transaction which was completed late last year. However, after the expiration date for completion of the deal was passed the two companies announced that the deal was cancelled.

Industry Overview

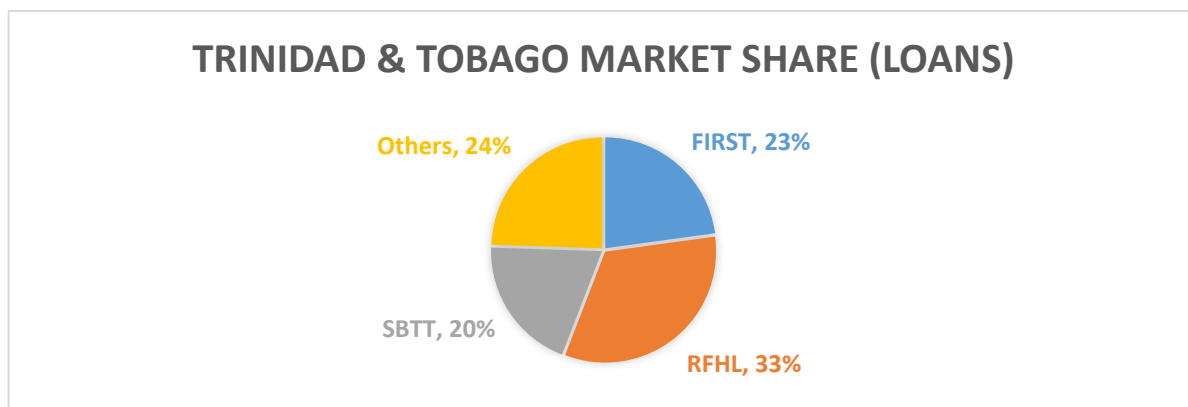
The banking sector in Trinidad & Tobago is the largest sector trading on the local stock exchange in terms of market capitalization. It comprises of 5 banks, namely, FirstCaribbean International Limited (FCI), First Citizens Bank Limited (FIRST), NCB Financial Group Limited (NCBFG), Republic Financial Holdings Limited (RFHL) and Scotiabank Trinidad & Tobago Limited (SBTT). RFHL is the largest bank in the sector with a market cap of TT\$ 22.7 billion.



The banking sector is currently trading at an average P/B multiple of 2.34x, which is above the TTcomp P/B multiple of 1.77x (TTALL -1.86x). Average sector dividend yield stands at 3.41%, above the TTcomp average of 3.17% (TTALL – 3.08%). SBTT is trading at a P/B multiple of 2.63 times which is above the industry average and the T&T composite multiple. SBTT has a dividend yield of 5.50% at its' current market price which is above the industry dividend yield as well as the TTcomp dividend yield.



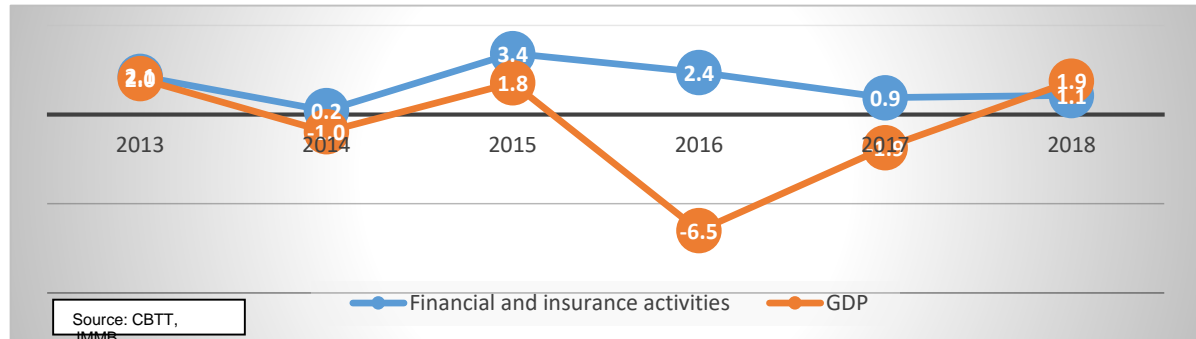
SBTT is the third largest locally domiciled bank in the Trinidad and Tobago financial system when measured by loans issued and the fourth largest when measured by deposit base. The largest locally domiciled bank in Trinidad and Tobago is RFHL by both metrics.



According to data from the CBTT, financial and insurance services contributed approximately 8% to the Trinidad and Tobago economy in 2018. The data also shows that over the past 6 years the financial sector has outpaced economic expansion. The financial sector grew at an annualized rate of 1.7%, while the Trinidad and Tobago economy contracted at an annualized rate of -0.6% over that period. As shown by the graph below, even in years when the Trinidad and Tobago economy declined, the financial sector showed a lot of resilience. In 2017, real GDP declined by -1.9%, while the financial sector expanded by 0.9%.

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In 2016, growth in the economy was estimated at -6.5%, however the financial sector expanded by 2.4%. The data shows that in recent times the financial sector in Trinidad and Tobago has become very robust; as even in a recession the sector can realize growth.



This recession however, is a bit different from the others as the banking sector has been called upon to play a significant roll through the provision of concessions to the clients. Not only will banks have to deal with increases in NPL's, they will have to deal with declining revenue as a result of waived fees and cash flow issues as a result of deferrals on loan payments.

Fair Value and Profit Drivers

SBTT's historically low NPL to Gross Loans ratio – Historically SBTT has had the lowest non-performing loans to gross loans ratio in the market. We believe that this will bode well for SBTT as they seek to navigate the effects of COVID-19. The low NPL ratio speaks to the quality of SBTT's loan book. Although we expect a spike in NIL's (Net Impairment Loss), we believe that SBTT will be able to navigate this period better than their peers and the NPLs to Gross Loans ratio is expected to return to normality by 2022.

Decline in SBTT's Non-Interest Income – For financial year 2020, we expect non-interest income to decline due to the concessions on fees given to customers as part of SBTT's COVID-19 response. Our expectation is that this will normalize in 2021, barring a second wave in Trinidad, we see this as unlikely given that the borders have been closed indefinitely.

Decline in Net Interest Income – Due to the reduction in SBTT's Prime Lending Rate, we expect net interest income to decline in 2020 and 2021. We believe that this will be partially offset by loan growth in 2020 as companies increase their borrowings in order to navigate the impact of COVID-19.

We forecast that in 2020, SBTT's EPS will decline by ~10% to \$3.41.

Valuation

Three valuation models were utilized to obtain an estimated intrinsic value range for SBTT. Firstly, a dividend discount model (DDM) was utilized. Two relative valuation models were also applied; a simple P/E method and a simple P/B method using the average multiple over the last 5 years.

DDM Model

Our three stage DDM assumes SBTT will be able to maintain its 2019 payout ratio and grow its EPS (and hence dividends) at the firm's current fundamental growth rate for the next 5 years then transition to the implied payout ratio given a stable growth assumption over the following 5 years. Intrinsic valuation on the DDM shows a share price of TT\$ 48.47 vs. a market price of TT\$ 54.99.

Simple P/E Insights

This model is a simple yet powerful measure of value that relies on historical market sentiment of the growth prospects of the stock. It uses the market implied multiple for SBTT for the past 5 years and forecasts the firm's EPS to arrive at the firm's 'fair value'. The analysis gives SBTT a valuation of TT\$ 58.08 which is TT\$ 3.09 above its current market value.

Simple P/B Insights

Simple P/B multiple, has a similar methodology to the simple P/E. It uses the average P/B multiple for the past 5 years then determines a fair value by projecting book value per share (BVPS). The forecasted BVPS is simply beginning BVPS increased by the firm's current fundamental growth rate; so, it implicitly assumes the same retention ratio. The analysis gives the stock a fair value of TT\$ 62.64 which is TT\$ 7.65 above its current market value.

SBTT Risk Factors

Macro-environmental factors - As with all firms SBTT is exposed to various risk factors from the external environment. Although data shows that the financial sector in Trinidad is more resilient during economic downturns than other sectors, management must still be mindful of the risk associated with increased delinquency caused by deteriorating economic conditions. This could put a major strain of SBTT's main income driver (interest from loans). Delinquency could be caused by increased unemployment levels, decline in disposable income and increases in cost of living of the citizens in Trinidad & Tobago.

Interest rate risk is always significant when discussing financial institutions as their revenue is heavily dependent on where interest rates are. A low interest rate environment means less interest income for the banking sector.

Recommendation

Fair Value Range	Price	Weight
DDM	\$ 48.47	50%
Simple PE Val	\$ 58.08	25%
Simple PB Val	\$ 62.64	25%
Weighted Price	\$ 54.42	
5% Under	\$ 51.70	
5% Over	\$ 57.14	

Our models give a range of values from \$48.47 to \$62.64, each with its own margin of error. The DDM model is weighted at 50% while the Simple P/E valuation and the Simple P/B valuation are weighted at 25% each. This is because we see the DDM as the most suitable model, given that investors in Trinidad and Tobago tend to see more value in dividend stocks. A 5% margin of error was applied to the weighted price to give a fair value range of \$51.70 - \$57.14. This is compared to the current market price of \$54.54. We project EPS for 2020 will be \$3.41. We recommend SBTT with a MARKETPERFORM rating.

This MARKETPERFORM rating is given on the following basis:

- SBTT has made significant investments in technology aimed at improving customer experience at the bank (digital tokens, Pulse- customer experience system, Customer queuing system, EVA Visa debit chip cards, Scotia Alerts, Intelligent Deposit Machines). These investments should allow SBTT to maintain and grow its market share.
- Historically, SBTT has had the lowest NPL ratio in the sector and the best efficiency ratio; this puts SBTT in a strong position to weather the economic downturn caused by COVID-19.

Benefits are balanced by:

- The lack of geographic diversification in SBTT's loan portfolio makes it susceptible to downturns in the Trinidad and Tobago economy.
- Due to COVID-19 measure, it is expected that there will be increased delinquency and declining interest income.

APPENDIX

IMPORTANT DISCLOSURES

Abstract— as a part of our new portfolio strategy we are recommending strict adherence to the following portfolio allocation **definitions/recommendations**.

PLEASE NOTE THAT NO INDIVIDUAL ASSET IN YOUR PORTFOLIO SHOULD HAVE A WEIGHTING GREATER THAN 10% UNLESS OTHERWISE RECOMMENDED BY YOUR PORTFOLIO MANAGER/ INVESTMENT ADVISOR OR A SPECIFIC JMMB RESEARCH REPORT. CONSEQUENTLY, THE FOLLOWING **DEFINITIONS** ARE PROVIDED FOR CLARITY.

OUTPERFORM - up to 10% of your portfolio

MARKETPERFORM - 5% of your portfolio

UNDERPERFORM - 2.5% to 4.9% of your portfolio

STRONGLY UNDERPERFORM - less than 2.5% of your portfolio

SELL - 0% of your portfolio